Eraring Energy

AUDIT OPINION

The audits of the financial reports for Eraring Energy and its controlled entity, Pacific Western Pty Limited, for the year ended 30 June 2007 resulted in unqualified Independent Auditor's Reports.

PERFORMANCE INFORMATION

Operational Performance

Eraring Energy operates a diverse portfolio of generating assets comprising thermal coal, hydro and wind. Some of the indicators Eraring Energy uses to assess its electricity generation performance are shown below.

Year ended 30 June	Actual					Target
	2003	2004	2005	2006	2007	2007
Generation of electricity (gigawatt hours)						
Thermal coal	14,744	14,567	12,703	14,216	***17,530***	***15,600***
Hydro	173	171	202	309	***114***	***300***
Wind	31	27	28	26	***24***	***28***
Total	14,948	14,765	12,933	14,551	***17,668***	***15,928***
Plant availability (%)	92.5	89.6	85.9	86.9	***93.0***	***95.5***
Thermal efficiency (%)	38.3	38.2	37.9	37.9	***37.9***	***38.1***

Source: Eraring Energy.

Electricity generation at Eraring Power Station increased to a record level of 17,530 gigawatt hours, an increase of 23 per cent over the previous year.

Renewable energy sources of hydro and wind accounted for 0.78 per cent of total production (2.3 per cent in 2005-06). The lower hydro production was due to the continued effect of the drought.

Plant Availability (Eraring Power Station)

Availability measures the total time generating units were either in service or able to be placed in service over a given period.

Thermal Efficiency (Eraring Power Station)

Thermal efficiency indicates the percentage of energy contained in the coal used to produce the electricity. Key drivers are the quality of energy fuel used and plant performance.

Financial Performance (Consolidated)

	Actual					Target*
	2003	2004	2005	2006	2007	2007
Earnings before interest and tax ($m)	65.3	110.5	113.2	208.5	***222.5***	***91.0***
Return on equity (%) (a)	3.8	6.2	6.9	9.8	***49.4***	***7.7***
Return on assets (%) (b)	4.7	7.5	7.4	7.2	***6.9***	***5.8***
Interest cover (times)	9.1	8.9	10.0	7.2	***13.8***	***3.5***
Total distributions to government ($m)+	58.2	98.1	115.7	97.0	***193.8***	***56.5***
Capital expenditure ($m)	20.0	33.0	43.4	36.3	***38.0***	***59.6***

* Target agreed with shareholder Ministers in the Statement of Corporate Intent.

\+ Total distribution before adjustment for Community Service Obligation.

(a) Profit before income tax, interest expense and movements in superannuation, financial instruments and insurance provision divided by equity.

(b) Profit before income tax and movements in superannuation, financial instruments and insurance provision divided by total assets.

Financial ratios achieved during the year were well above agreed targets. The large variances were due to higher average spot prices and record generation levels mainly driven by the prolonged effects of the drought. Lower than budgeted financing costs and expenditure on external services were also contributing factors.

OTHER INFORMATION

Contractor's Claim

In January 2002, Eraring received a claim from a contractor for extra costs for the construction of a new 16 megawatt unit and upgrade of existing units at Burrinjuck Hydro Power Station. The claim is currently for $14.0 million. Eraring Energy is contesting the quantum of the claim and has made a without prejudice offer of settlement of $3.0 million. Arbitration concluded in June 2007 with a decision pending.

Claim for Damages

A property developer sought unspecified damages and remediation of land at a property neighbouring Eraring Power Station. The claim related to the alleged contamination of the site by the Electricity Commission. Eraring, as successor to the Electricity Commission, lodged a defence to the claim. The matter was settled during the year.

Collie Power Station Operation and Maintenance Agreement

Eraring Energy's controlled entity, Pacific Western Pty Limited (Pacific Western), terminated its agreement with Verve (formerly Western Power), the Western Australian Government energy organisation, for the operation and maintenance of the power station at Collie, in Western Australia, on 24 March 2005. Verve submitted a claim of $5.0 million for damages incurred as a direct consequence of the early termination of the contract. In January 2007, Pacific Western resolved the claim with payment of $3.4 million.

Major Project Expenditure – Eraring Power Station

Eraring Energy commenced the purchase, installation and commissioning of a Black Start Gas Turbine at the Eraring Power Station in December 2005. The purchase was completed in June 2007, however, the installation and commissioning phase of the project is not expected to be finalised until 31 January 2008. The project has a budget of $24.4 million and expenditure to date has been $18.5 million.

FINANCIAL INFORMATION

The following consolidated financial information is for Eraring Energy and its controlled entity, Pacific Western Pty Limited.

Abridged Income Statement

Year ended 30 June	2007 $'000	2006 $'000
REVENUE	***876,847***	728,542
PROFIT BEFORE BORROWING COSTS, DEPRECIATION AND TAX	***292,514***	277,571
Borrowing costs	***14,663***	15,718
Depreciation	***69,979***	69,046
PROFIT BEFORE TAX	***207,872***	192,807
Income tax equivalent	***62,197***	57,881
PROFIT AFTER TAX	***145,675***	134,926
Dividend provided	***132,131***	41,320

Revenue included $849 million in electricity sales compared to $630 million in the previous year. The increase was mainly due to record spot prices and generation levels primarily brought about by the drought. The higher electricity sales revenue was partly offset by a contribution to the Electricity Tariff Equalisation Fund of $32.6 million.

Abridged Balance Sheet

At 30 June	2007 $'000	2006 $'000
Current assets	***552,610***	123,358
Non-current assets	***2,368,997***	1,448,022
TOTAL ASSETS	***2,921,607***	1,571,380
Current liabilities	***1,638,980***	225,474
Non-current liabilities	***902,623***	354,078
TOTAL LIABILITIES	***2,541,603***	579,552
NET ASSETS	***380,004***	991,828

The record spot price of electricity at 30 June, resulted in significant increases in trade receivables, payables, non-current assets and derivative liabilities as at 30 June 2007.

Property, plant and equipment increased by $554 million. The increase was caused by the expected higher forward prices of electricity used in determining the discounted cash flow valuation, effective 30 June 2007.

The increase in liabilities was due to an increase in the fair value of electricity derivative liabilities for hedge contracts. The fair value of these liabilities at 30 June 2007 was $1.4 billion ($120 million 2005-06). The increase was caused by the high electricity spot price at 30 June which flowed through to forward prices. Negative fair value movements arise when the forward prices are higher than the actual contract prices.

The increase in derivatives liabilities does not impact the Corporation's cash flow or its ability to pay its debts when they become due and payable.

By 31 August 2007, forward prices had substantially reduced resulting in the fair value of derivative liabilities falling to $338 million.

Eraring repaid capital of $184 million to NSW Treasury ($49.0 million in 2005-06) effectively funded by increased borrowings with NSW Treasury Corporation for the same amount. The Board provided for a dividend of $132 million to be paid to NSW Treasury ($41.3 million in 2005-06).

CORPORATION ACTIVITIES

See the 'Overview of the Energy Industry' section earlier in this report for general industry comment.

Eraring Energy was established as a statutory State owned corporation in July 2000 under the *State Owned Corporations Act 1989, Energy Services Corporations Act 1995* and Energy Services Corporation (Eraring Energy) Regulation 2000. It commenced operations in August 2000 to generate electricity for sale in the National Electricity Market.

CONTROLLED ENTITY

The following controlled entity has not been separately reported on as it is not considered material by its size or the nature of its operations to the consolidated entity.

For further financial and other information on this entity we have listed the entity's website.

Entity Name	
Pacific Western Pty Limited	www.eraring-energy.com.au